

CUSTOMS BULLETIN AND DECISIONS

**Weekly Compilation of
Decisions, Rulings, Regulations, and Notices
Concerning Customs and Related Matters of the
U.S. Customs Service
U.S. Court of Appeals for the Federal Circuit
and
U.S. Court of International Trade**

VOL. 27

MARCH 10, 1993

NO. 10

This issue contains:

U.S. Customs Service

C.S.D. 93-1 Through 93-5

General Notice

U.S. Court of International Trade

Slip Op. 93-21 Through 93-23

Abstracted Decisions:

Classification: C93/16 and C93/17

NOTICE

The decisions, rulings, notices and abstracts which are published in the CUSTOMS BULLETIN are subject to correction for typographical or other printing errors. Users may notify the U.S. Customs Service, Office of Logistics Management, Printing and Distribution Branch, Washington, D.C. 20229, of any such errors in order that corrections may be made before the bound volumes are published.

U.S. Customs Service

Customs Service Decisions

DEPARTMENT OF THE TREASURY,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
Washington, DC, February 23, 1993.

The following are decisions of the United State Customs Service where the issues involved are of sufficient interest or importance to warrant publication in the CUSTOMS BULLETIN.

HARVEY B. FOX,
Director,
Office of Regulations and Rulings.

(C.S.D. 93-1)

This ruling holds that the process of applying decorative decals to finished porcelain plates is a minor operation that does not substantially transform the imported articles for purposes of the country of origin marking requirements of 19 U.S.C. 1304 and 19 CFR 134.35 and 134.1(d).

DEPARTMENT OF THE TREASURY,
U.S. CUSTOMS SERVICE,
Washington, DC, October 17, 1991.

File: MAR-2-05 CO:R:C:V 734052 GRV
Category: Marking

JERRY P. WISKIN, ESQ.
FREEMAN, WASSERMAN & SCHNEIDER
90 John Street
New York, N.Y. 10038

Re: Country of origin marking of finished porcelain plates imported from Japan to be ornamented in the U.S. with foreign-sourced decorative decals. 19 CFR 134.35; substantial transformation; *Uniroyal; Belcrest Linens; T.D. 89-21; 732964; C.S.D. 84-113; National Juice; Koru North America; FDA Compliance Policy Guides for lead and cadmium contamination (required and permanent labeling); Superior Wire; C.S.D. 91-7*

DEAR MR. WISKIN:

This is in response to your letters of February 22, July 16, and October 1, 1991, on behalf of Lenox Inc., requesting and supplementing a country of origin marking ruling regarding finished porcelain plates imported into the U.S. to have a decorative decal applied. Samples of the porcelain plates as imported and after having been decorated in the U.S. were submitted for examination.

We have considered in connection with this ruling request the information provided by you in two meetings that were held at Customs Headquarters on June 24 and October 1, 1991.

Facts:

Your client plans to import porcelain plate dinnerware from Japan and decorative decals from Germany (or another foreign source) and domestically combine the two items into signed, numbered collectable plates. Although you denominate the imported porcelain plates "blanks," they are finished articles—glazed with an ornamental gold band around their edge; suitable for use as dinnerware. When imported, each plate is valued at \$1.20 and the country of origin is denoted by an adhesive sticker affixed to its bottom. The decorative decals are made with inks containing lead and cadmium. When imported, each decal is valued at \$1.15, however, they are not individually marked to indicate their foreign origins.

The domestic processing entails attaching two decals to each plate: the foreign-sourced decorative decal is moistened and applied to the top, front-side of the "blank," *i.e.*, undecorated, plate, and a domestically-produced, two-color backstamp decal, containing the recommended warning of the U.S. Food and Drug Administration (FDA)¹ that the article is "not for food use," is moistened and applied to the bottom, back-side of the plate. The decorated plate is then dried for 24 hours and fired in a kiln. The plate is then hand-numbered in gold on the bottom side, refired, packaged and sold as a finished, collectible. You submit that the processing involved here is a sophisticated process, which occurs over a fixed-period of days. These domestic operations are valued at \$4.20, which includes the cost of packaging materials. The entire transaction is valued at \$6.55 per decorated plate.

You state that the imported porcelain plates are substantially transformed by these U.S. processing operations so as to exempt them from the country of origin marking requirements of § 304 of the Tariff Act of 1930, and reference certain court decisions and administrative rulings in support of this contention. You claim that the domestic processing alters the character, name and use of the "blank" plate to that of a decorative collectible item. Further, you state that the domestic processing adds significant value to the imported porcelain plate—quadrupling its

¹ Published as Compliance Policy Guides 7117.06 (for Cadmium Contamination) and 7117.07 (for Lead Contamination), they provide that nonfood service plates are not required to meet the guidelines for dinnerware, provided they do not come in place settings for the table and provided further that there is a permanent label on the back of the plate stating "Not for Food Use-Plate May Poison Food. For Decorative Purposes Only."

value—and, although the domestic processing could result in the porcelain plates changing tariff classifications—from subheading 6911.10.4900 to subheading 6913.10.50, Harmonized Tariff Schedule of the United States (HTSUS), you acknowledge that this change is not dispositive on the question of whether a substantial transformation has occurred. Lastly, you state that the safety warning required by the FDA is a significant consideration, which renders the plate unsuitable for use as tableware intended for food service, and that this circumstance establishes that the domestic processing has created a new and different article of commerce.

Issue:

Whether the application of decorative decals to finished porcelain plates constitutes a substantial transformation of the imported articles for purposes of the country of origin marking requirements of 19 U.S.C. 1304 and 19 CFR §§ 131.35 and 134.1(d).

Law and Analysis:

The marking statute, § 304 of the Tariff Act of 1930, as amended (19 U.S.C. 1304), provides that, unless excepted, every article of foreign origin (or its container) imported into the U.S. shall be marked in a conspicuous place as legibly, indelibly and permanently as the nature of the article (or its container) will permit in such a manner as to indicate to the ultimate purchaser the English name of the country of origin of the article. Part 134, Customs Regulations (15 CFR Part 134), implements the country of origin marking requirements and exceptions of 19 U.S.C. 1304.

The primary purpose of the country of origin marking statute is to "enable the 'ultimate purchaser' of the goods to decide for himself whether he would 'buy or refuse to buy them'." *Uniroyal, Inc., v. United States*, 3 CIT 220, 223, 542 F.Supp. 1026, 1028 (1982), *aff'd per curium*, 1 Fed.Cir. 21, 702 F.2d 1022 (1973).

The "ultimate purchaser" is defined generally as the last person in the U.S. who will receive the article in the form in which it was imported. 19 CFR 134.1(d). If an article is to be sold at retail in its imported form, the purchaser at retail is the "ultimate purchaser." 19 CFR 134.1(3). However, if an imported article will be used in manufacture, the manufacturer may be the "ultimate purchaser" if [s]he subjects the imported article to a process which results in a substantial transformation of the article, even though the process may not result in a new or different article. But, if the manufacturing process is a minor one which leaves the identity of the imported article intact, the consumer or user of the article, who obtains the article after the processing, will be regarded as the "ultimate purchaser." 19 CFR 134.1(d)(1) and (2).

A substantial transformation occurs when an imported article is used in the U.S. in manufacture, which results in an article having a name, character, or use differing from that of the imported article. Under this principle, the manufacturer or processor in the U.S. who converts or

combines the imported article into the different article will be considered the "ultimate purchaser" of the imported article, and the article shall be excepted from marking. However, the outermost containers of the imported articles must be marked. 19 CFR 134.35. As the issue of whether a substantial transformation occurs is for marking purposes a question of fact, it is determined on a case-by-case basis. *Uniroyal*.

Taken as a whole and after examining the samples submitted in this case, the conclusion is clear that a substantial transformation of the porcelain plate has not occurred since the attachment of the decorative decal is a minor manufacturing or combining process which leaves the identity of the porcelain plate intact. The domestic processing in this case ostensible constitutes a minor assembly operation: attaching a decorative decal to a plate. See, Headquarters Ruling Letter (HRL) 555175 dated March 13, 1989, abstracted as C.S.D. 89-49(13), 23 Cust. Bull. 644 (1989), and HRL 555506 dated January 16, 1990, abstracted as C.S.D. 90-32(3), 24 Cust.Bull. 359 (1990). And we have long held that mere assembly operations do not constitute a substantial transformation. In determining whether the combining of parts or materials constitutes a substantial transformation, the issue is the extent of operations performed and whether the parts lose their identity and become an integral part of the new article. *Belcrest Linens v. United States*, 6 CIT 204, 573 F.Supp. 1149 (1983), *aff'd*, 2 Fed.Cir. 105, 741 F.2d 1358 (1984). Assembly operations which are minimal or simple, as opposed to complex or meaningful, will generally not result in a substantial transformation. See, C.S.D.s 80-111, 85-25, 89-110, 89-118, 89-129 and 90-97. The assembly operation performed here is a simple - two-step - combining process which leaves the identity of the imported porcelain plate - and decal - intact.

Further, regarding the decoration of ceramic products by painting or with decals in particular, Customs has long held that neither process constitutes a substantial transformation. In T.D. 89-21, 23 Cust.Bull. 157 (1989), Customs stated that the mere decoration of porcelainware does not constitute a substantial transformation. See also, HRL 732964 dated August 3, 1990 (imported ceramic "bisque ware" not substantially transformed by domestic hand painting operation). In C.S.D. 84-113, 18 Cust. Bull. 1111 (1084), Customs stated that decorating an already-glazed article by means of decalcomania, *i.e.*, applying decals, and kiln firing does not effect a substantial transformation of the article, and that such processors were not the ultimate purchasers for marking purposes. In sum, we are not persuaded that processing here, which merely results in the decoration of finished ceramics constitutes a substantial transformation, as the identity of imported article remains intact. Accordingly, given that no other country of origin marking exception is applicable, the imported porcelain plates here must be individually marked.

Addressing the substantial transformation criteria in turn, we find that the simple combining process performed in the U.S. does not effect

a change in the name, character or use of the imported porcelain plates. Regarding the change in name, we find your characterization of the imported porcelain plates as "blanks" spurious, as they are finished plates, suitable for use as dinnerware. Further, assuming there is otherwise a change in name, such change in the name of the product is the weakest evidence of a substantial transformation. *Uniroyal, National Juice Products Ass'n v. United States*, 10 CIT 45, 628 F.Supp. 978 (1986), and *Koru North America v. U.S.*, 12 CIT 1120, 701 F.Supp. 229 (1988). Regarding the change in character, we find none; the plates retain their essential identity/character as plates, albeit decorated ones. No change to the physical dimensions of the base plates occurs. Regarding the change in use, although we find a more restricted use for the imported plates in the area of commercial dinnerware — occasioned by the choice of metal poisons employed in the inks to make the foreign decal which requires that a FDA warning label be affixed — we do not believe this circumstance constitutes a substantial change in use for purposes of finding a substantial transformation.

Regarding the applicability of FDA guidelines requiring a safety warning in this case, in *National Juice*, the court noted that Customs and FDA regulations are promulgated under completely different statutes and hence one cannot be considered binding on the other. As FDA standards of identity are intended to aid in identifying the contents of a product and not to identify the origin of a product as a whole, they are not binding on Customs in a determination of whether a substantial transformation has occurred. Further, *contra* your assertion that the FDA labeling requirement evidences the unsuitability of the article for food service use and establishes that the domestic processing creates a new and different article of commerce, we note that the safety warning does not dictate that the ornamented plates cannot be used, under all circumstances, as food service plates. The warning label is required because certain ceramic wares have been found by the FDA to contain significant quantities of metal poisons, which can be extracted by food acids and could cause chronic poisoning under continued food use. Thus, the FDA warning/safety label is cautionary and does not mandate a particular use. And it is entirely possible, if not probable, that ultimate purchasers will occasionally offer articles of food on the adulterated plates, taking care to ensure that food items are protectively insulated from the plates surface or provide a medium layer of material to prevent the leaching of the metal poison to the food item.

Lastly, while significant value has been added to the imported articles here and a change in tariff classification is apparent, these considerations are not dispositive of whether a substantial transformation has taken place. See, *Superior Wire v. United States*, 11 CIT 608, 669 F.Supp. 472 (1987), *aff'd*, 7 Fed.Cir. 43, 867 F.2d 1409 (1989), and C.S.D. 91-7 (no substantial transformation of jewelry despite added value), concerning the value-added consideration, and *Belcrest Linens v. United States*, 6 CIT 204, 573 F.Supp. 1149 (1983), *aff'd*, 2 Fed.Cir. 105,

741 F.2d 1368 (1984), concerning the change in tariff classification consideration.

We also conclude that the imported decal is also not substantially transformed when attached to the porcelain plate. Accordingly, not only must the porcelain plates be marked in a more permanent method of marking than by means of paper adhesive labels, C.S.D. 84-113, but after the domestic processing, the country of origin of the foreign-made decal must also be indicated on the decorated plate.

Holding:

The imported porcelain plates and decals are not substantially transformed by the domestic application of the decals to the top, front-side of the plates, as the decalcomania operation is a minor process which leaves the identity of the imported plates and decals intact. Accordingly, the plates must be individually marked with a more permanent means than the adhesive stickers currently used — to survive the U.S. processing operation — and, after the domestic processing operation, the plates must be further marked to indicate the country of origin of the foreign-made decal to satisfy the country of origin marking requirements of 19 U.S.C. 1304 and 19 CFR 734.1(d).

JOHN DURANT,
Director,
Commercial Rulings Division.

(C.S.D. 93-2)

This ruling holds that extensive hand-cutting and other operations performed to uncut crystal stemwear "blanks" effectuates an article which is significantly transformed in functional character from the original uncut "blanks" for purposes of the country of origin marking (19 U.S.C. 1304 and 19 CFR 134.1(b)).

DEPARTMENT OF THE TREASURY,
U.S. CUSTOMS SERVICE,
Washington, DC, June 8, 1992.

File: MAR-2-05 CO:R:C:V 734387 GRV
Category: Marking

SCOTT BLAKE HARRIS, ESQ.
WILLIAMS & CONNOLLY
839 Seventeenth Street, N.W.
Washington, D.C. 20006

Re: Country of origin marking of certain lead crystal stemware (Lismore pattern) hand-cut in a country other than the country where it was first produced. 134.1(b); uncut glassware; foreign processing (deco-

rative pattern cutting); substantial transformation (degree and extent of manufacture affects character); *Koru North America; Madison Galleries; Superior Wire; National Hand Tool Corp.*; 043004; 045106; 047663; 733036 (distinguished); 556060; 555787; O.C.O.D. 91-1; C.S.D. 89-49(9)

DEAR MR. HARRIS:

This is in response to your letters of October 17, November 8, and December 12, 1991, on behalf of Waterford Crystal, Inc., requesting a country of origin marking ruling regarding certain lead crystal stemware formed in a Continental Europe country and hand-cut in Ireland. Photographs and sample stemware showing the various stages of the hand-cut crystal stemware were submitted for examination.

We have considered in connection with this ruling request the information provided by you and your client in a meeting held at Customs Headquarters on February 6, 1992.

Facts:

This ruling is limited to the merchandise submitted for examination, identified as the "Lismore" pattern of Waterford crystal stemware.

Waterford Crystal, Inc., intends to import uncut, lead crystal stemware from unspecified Continental Europe countries, hand-cut a certain decorative pattern onto the exterior of all areas of the stemware—the bowl, stem and foot, perform certain finishing operations on the cut stemware, and export the finished stemware to the U.S. for retail sales to individual consumers.

The stemware is given its shape in Europe, where the production of the crystal is a completely automated, unskilled operation, requiring one to two and a half minutes to perform.¹ You denominate the crystal stemware product at this stage of its production a "blank," although its utility as stemware was established when it was first formed. The condition of the "blank" following this forming process is such that the lip of the bowl portion of the stemware is smooth (not rough) and the height of the stemware and the capacity of the bowl are already determined. Thus, while the "blanks" do not constitute finished consumer products, their final stemware dimensions are fixed. The price of a "blank" currently ranges from \$2.50-\$3.00 each.

The stemware is given its decorative, outward appearance in Ireland, where the production of the finished crystal stemware product is labor-intensive and exacting, entailing considerable expertise in the art of hand-cutting the crystal. Overall, the hand-cutting operation entails (1) ink marking the three areas of the "blank" stemware—the bowl, stem and foot—with the appropriate grid pattern ("Lismore") to be cut, (2) having a team of glass cutters variously cut the pattern onto the "blank," which takes on average seven minutes, (3) performing various

¹ Of the two methods employed to produce glassware—blowing and pressing, the subject "blanks" are blown.

finishing operations—washing and acid polishing and dipping the cut piece—a one hour process, which produces a glossy finish, and (4) inspecting and packaging the finished consumer product—hand-cut lead crystal stemware—for export to the U.S. The finished stemware carries an ex-factory price ranging from \$15.00-\$25.00 each: an increase of more than 500% increase in cost as a result of the processing in Ireland.

Regarding the hand-cutting aspect of the operation, it is extremely labor-intensive, as it is accomplished by skilled cutters without mechanical assistance. The cutters normally serve an apprenticeship of five years perfecting the various cutting skills necessary to create a particular pattern on the stemware, and even then work under the direction of a master cutter, who possesses at least ten years cutting experience. The pattern cutting is accomplished in teams specializing in certain cuts; each team being comprised of a master cutter and four other cutters, designated as either wedge cutters, who produce deep, diamond-shaped cuts on the stem portion of the stemware, or flat cutters who produce shallow smooth cuts on the bowl and foot portion of the stemware². Further regarding the flat cutting, it is stated that, typically, they have to be made twice using different wheels, which adds to the labor intensity of the cutting process.

The cutting of the Lismore pattern affects a large portion, approximately 80%, of the stemware's surface area, as all three areas of the stemware—the bowl, stem and foot—are subjected to cutting operations. The bowl area of the stemware is variously cut in two separate areas: in the middle of the goblet's bowl, the main, 16-leaf Lismore, pattern is both flat and wedge cut; the bottom of the bowl is flat cut to create a scalloped effect. Together, these cuttings affect approximately 75% of bowl area. The entire stem area of the stemware (round in shape) is flat cut into a hexagon design. And approximately 90% of the foot area is variously cut to complement the main, 16-leaf Lismore, pattern. The material result of these various cutting operations is that approximately 80% of the surface area of the crystal stemware is removed, making the finished stemware approximately 25% lighter. However, while the various flat and wedge cuts create a large variety of visual effects—faceting and scaling—on the surface of the stemware, the exterior cutting does not otherwise affect the crystal "blank's" shape or utility; its capacity and height as glassware and use as stemware remain unchanged.

You claim that the "blanks" imported into Ireland are substantially transformed by the operations performed there, such that the country of origin of the finished stemware imported into the U.S. is Ireland. You argue that the processing in Ireland causes a change in the "blanks" (1) name, (2) character, and (3) use, as follows:

- (1) a change in name—from "blanks" (the accepted, descriptive name for such items in the crystal industry because the imported articles are not cut) into "hand-cut crystal stemware";

² It is stated that the two basic types of cuts—wedge and flat—derive their names from the shapes of the cutting wheels.

(2) a change in character—the “blanks” are unsuitable for use by consumers and are in fact not merchantable; their only demand is as raw material for further processing. You state that the “blank’s” significantly altered “appearance” demonstrates its changed character, as the finished stemware can now be used both as formal tableware and as display items. In this regard you reference Headquarters Ruling Letter (HRL) 555250 (abstracted as C.S.D. 89-49(9) and distinguish Customs determination in Office of Commercial Operations Decision (O.C.O.D.) 91-1, which revoked a previous country of origin determination involving lead crystal; and, (3) a change in use—repeating the character argument above that the finished stemware can be used both as formal tableware and as display items.

Issue:

Whether the hand-cutting and other operations performed in Ireland to effect the finished Lismore-pattern on crystal stemware substantially transform the uncut crystal stemware for purposes of country of origin marking under 19 U.S.C. 1304 and 19 CFR 134.1(b).

Law and Analysis:

The marking statute, § 304 of the Tariff Act of 1930, as amended (19 U.S.C. 1304), provides that, unless excepted, every article of foreign origin (or its container) imported into the U.S. shall be marked in a conspicuous place as legibly, indelibly and permanently as the nature of the article (or its container) will permit in such a manner as to indicate to the ultimate purchaser the English name of the country of origin of the article. Part 134, Customs Regulations (19 CFR Part 134), implements the country of origin marking requirements and exceptions of 19 U.S.C. 1304.

The purpose of the country of origin marking laws “is to mark the goods so that at the time of purchase the ultimate purchaser may, by knowing where the goods were produced, be able to buy or refuse to buy them, if such marking should influence his will.” *United States v. Friedlaender & Co.*, 27 CCPA 297, 302, C.A.D. 104 (1940). The “ultimate purchaser” is defined generally as the last person in the U.S. who will receive the article in the form in which it was imported. 19 CFR 134.1(d). If an article is to be sold at retail in its imported form, the purchaser at retail is the “ultimate purchaser.” 19 CFR 134.1(3).

The country of origin for marking purposes is defined at § 134.1(b), Customs Regulations (19 CFR 134.1(b)), to mean the country of manufacture, production, or growth of any article of foreign origin entering the U.S. Further work or material added to an article in another country must effect a substantial transformation in order to render such other country the “country of origin” within the meaning of Part 134. A substantial transformation occurs when articles lose their identity and become new articles having a new name, character, or use. *Koru North America v. United States*, 12 CIT 1120, 701 F.Supp. 229 (1988). The question of when a substantial transformation occurs for marking pur-

poses is a question of fact; to be determined on a case-by-case basis. *Uniroyal Inc. v. United States*, 3 CIT 220, 542 F.Supp. 1026 (1982), *aff'd*, 1 Fed.Cir. 21, 702 F.2d 1022 (1983).

Although the substantial transformation criteria speak to the condition of the article as it emerges from a substantial manufacturing operation, the focus of the inquiry is on the nature of the particular processing operation. In *Madison Galleries, Ltd. v. United States*, 12 CIT 485, 688 F. Supp. 1544 (1988), *aff'd*, 7 Fed.Cir. 56, 870 F.2d 627 (1989), the court stated that the starting point for resolving substantial-transformation issues was the definition of manufacture, citing *Ferrostaal Metals Corp. v. United States*, 11 CIT 470, 664 F. Supp. 535 (1987)³. And in *Superior Wire v. United States*, 11 CIT 608, 669 F. Supp. 472 (1987), *aff'd*, 7 Fed.Cir. 43, 867 F.2d 1409 (1989), the same court stated that:

[i]n recent years the courts have concentrated on change in use or character, finding various subsidiary tests appropriate depending on the situation at hand. An inquiry that is sometimes treated as a type of cross-check or additional factor to be considered in substantial transformation cases is whether significant value is added or costs are incurred by the process at issue. (Citations omitted).

A value added test has appeal in many situations because it brings a common sense approach to a fundamental test that may not be easily applied to some products. *** related concepts, including the amount of labor required to accomplish the change and the capital investment required relative to that required to produce the entire article, are also relevant to a determination of whether the change involves minor processing. *** By itself such analysis may not provide the entire answer as to whether a substantial transformation has taken place, but it should comprise part of the analysis in a case involving the type of products and processing at issue here.⁴

Customs has previously considered the issue of cutting patterns onto certain merchandise and generally found that such processing in a country other than the country where the merchandise was first produced does not substantially transform the cut article from its original country of origin. For rulings concerning certain wine glasses, see Headquarters Ruling Letters (HRLs) 043004 dated January 7, 1976, 045106 dated April 22, 1976, 047663 dated March 21, 1977, and 733036 dated April 9, 1990. For rulings concerning the cutting of jewelry, see HRLs 556060 dated August 27, 1991 and 555787 dated October 2, 1991. How-

³ In *Ferrostaal*, the court stated that a product cannot be said to originate in the country of exportation if it is not manufactured there, unless operations performed on the product in the country of exportation are of such a substantial nature as to justify the conclusion that the resulting product is a manufacture of that country.

⁴ Cf. *National Hand Tool Corp. v. United States*, Slip Op. 92-61, 16 CIT ____ F.Supp. ____ (CIT April 27, 1992), wherein the court cautioned that value added tests could lead to inconsistent marking requirements for importers who performed exactly the same processes on imported merchandise but sold at different prices, and stated that to avoid such ludicrous results, the substantial transformation test utilizing name, character and use criteria should generally be determinative of the requirement for country of origin marking.

Employing *Webster's Third New International Dictionary* (1981), the court also proceeded to define "character" as "one of the essentials of structure, form, materials, or function that together make up and usu[ally] distinguish" merchandise.

ever, your arguments respecting the difference between the present transaction and the transactions previously ruled on have merit.

The O.C.O.D. you reference concerned a Treasury Department memorandum dated May 21, 1986, wherein the Treasury Department initially concluded that the proper country of origin of crystal vases produced and partially cut in Czechoslovakia and finished in Ireland by additional hand-cutting, grinding, and polishing was Ireland, based, in part, on the fact that the market value of the imported product was nearly doubled. On instructions from the Treasury Department, Customs revoked this country of origin determination. O.C.O.D. 91-1 dated June 4, 1991, 25 Cust. Bull. No. 25, p. 7. The present transaction is distinguishable from the transaction subject of the Treasury memorandum and O.C.O.D. revocation, in that here the crystal stemware "blanks" are completely uncut at the time of their importation into Ireland and the extent of the manufacturing activities in Ireland radically alters the appearance of the stemware and adds substantial value – at least 500% – to the finished article.

In HRL 733036, *supra*, crystal stemware was made in Austria at a unit cost of \$1.60. The uncut stemware was exported to East Germany – now Germany, where simple flat cuts were made on the bottom of the flute above the stem at a unit cost of \$0.62. Acknowledging that the hand cuts were attractive, being very simple flat cuts that did not greatly increase the value of the stemware, we concluded that it did not substantially increase the value of the stemware, as it was not very time consuming nor intricate. Accordingly, we held that the crystal stemware was not substantially transformed in East Germany. Cf., HRL 555250 dated March 13, 1989 (abstracted at C.S.D. 89-49(9)), domestically-made glass mugs, produced at a unit cost of \$0.34, were exported to France where they were etched or cut and specially tempered, at a unit cost of \$0.50; held: that the returned mugs were substantially changed abroad so as to preclude special tariff treatment under HTSUS subheading 9802.00.50, as articles altered abroad. You argue that the present transaction is even more complicated than the simple etching involved in the later HRL and likewise creates a profound change in the appearance of the imported "blank" stemware.

Comparing the extent and degree of the crystal stemware processing in HRL 733036 with that presented here, and considering the relevance of the *Superior Wire* value-added analysis, we find that, taken as a whole and after examining the samples and photographs submitted, the character of the imported glassware "blanks" is substantially transformed functionally into formal, elegant stemware – suitable for indoor decoration – by the extensive hand-cutting operation performed in Ireland. This finding is based on the following facts: (1) that the hand-cutting operation is not a minor, but rather a substantial and intricate processing operation requiring skilled craftsmen; (2) that the hand-cutting operation not only materially impacts on the imported "blank" (removes approximately 80% of the surface area of the stemware, making the

finished article approximately 25% lighter) but also imparts a distinctive, elegantly decorated appearance to the otherwise bare utilitarian character of the uncut glassware "blanks," and; (3) that significant value — more than 500% — is added to the glassware "blanks" because of the hand-cutting operation. The degree of hand-cutting being so intricate and elaborate and the extent to which it is accomplished to effect the Lismore pattern, affect the glassware's decorative/display character, thereby causing the initial "blank" to lose its identity as mere glassware and become a new article: formal, *i.e.*, elegantly distinctive, stemware, bought primarily for its functional appearance, rather than for its utilitarian use. The substantial transformation criteria being disjunctive in their application, the finding of a functional character change is sufficient to render Ireland the country of origin of the Lismore-pattern crystal stemware imported into the U.S.

Holding:

The extensive hand-cutting and other operations performed in Ireland to effect the finished Lismore-pattern on crystal stemware substantially transform the functional character of the uncut crystal stemware "blanks" for purposes of the country of origin marking under 19 U.S.C. 1304 and 19 CFR 134.1(b). Thus, Ireland is the country of origin of the imported Lismore pattern crystal stemware.

JOHN DURANT,
Director,
Commercial Rulings Division.

(C.S.D. 93-3)

This ruling holds that, for purposes of country of origin marking, the ultimate purchaser of frozen airline meals is the airline and not the airline passenger (19 U.S.C. 1304(a)(3)(D) and 19 CFR 134.32(d).

DEPARTMENT OF THE TREASURY,
U.S. CUSTOMS SERVICE,
Washington, DC, July 30, 1992.

File: MAR-2-05 CO:R:C:V 734524 ER
Category: Marking

MR. ED BAKER
A.N. DERINGER, INC.
30 West Service Road
Champlain, New York 12919-9703

Re: Country of Origin Marking for Frozen Meals from Canada; Ultimate Purchaser; Airlines; 19 U.S.C. 1304(a)(3)(D); 19 CFR 134.32(d); 19 CFR 134.1(d); HQ 729477 revoked.

DEAR MR. BAKER:

This is in response to your letter of February 17, 1992, on behalf of your client, Delta Dailyfood (Canada) Inc., 26 rue Seguin, Rigaud (Quebec) Canada, J0P 1PO, concerning the country of origin marking requirements for frozen meals imported by Delta Dailyfood and sold by them to KLM airlines in the U.S. Samples of the meal container and the master outer container were provided.

Facts:

The frozen meals are imported into the U.S. in individual sealed containers with peel-off tops, measuring approximately 4" width x 6.5" length x 1.5" depth, and which are shipped inside master containers in sets of 30. The master cartons are clearly and conspicuously marked "Product of Canada". Delta Dailyfood sells the meals to KLM Airlines in the U.S. The frozen meals are never sold individually at retail or otherwise.

No details were provided regarding the manner of preparation required prior to serving the meals to the passengers, nor were the contents of the meal described. From looking at the sample provided of an individual container (which features on it the words "chicken, apple, almond and raisins"), we assume that before service the frozen meals only require heating.

The meals are not consumed in the U.S. but are instead served to passengers during trans-atlantic flights as a part of KLM's overall service. The food service is a complimentary service covered by a tariff to this effect which is on file with the U.S. Department of Transportation. The meals are not sold for separate consideration.

In your submission you included copies of correspondence from KLM to Delta Dailyfood; from the Food and Drug Administration ("F.D.A.") to Delta Dailyfood; from the Canadian Department of Agriculture, Meat and Poultry Products Division, to Delta Dailyfood; and from the U.S. Department of Agriculture, Food Safety and Inspection Service ("F.S.I.S.") to the Canadian Department of Agriculture, Meat and Poultry Products Division. From this correspondence it is made apparent that F.D.A. does not regulate such meals so long as they are used on flights which depart the U.S. and fly to Europe or any other foreign destination without additional stops in the U.S. or its territories. Furthermore, F.S.I.S. exempts frozen meals prepared for airline customers from U.S. meat and poultry inspection if they are in transit in the U.S. and are intended for use on international flights that do not make additional stops in the U.S. F.S.I.S. requires no notification upon importation, nor any permit or authorization to import these products.

Issue:

Who is the ultimate purchaser of the frozen meals that are served to passengers on KLM trans-atlantic flights?

Are the individual frozen meals excepted from country of origin marking?

Law and Analysis:

Section 304 of the Tariff Act of 1930, as amended (19 U.S.C. 1304) provides that, unless excepted, every article of foreign origin imported into the U.S. shall be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or container) will permit, in such a manner as to indicate to the ultimate purchaser in the U.S. the English name of the country of origin of the article. Congressional intent in enacting 19 U.S.C. 1304 was that the ultimate purchaser should be able to know by an inspection of the marking on the imported goods the country of which the goods are the product. Part 184, Customs Regulations (19 CFR 134), implements the country of origin marking requirements and exceptions of 19 U.S.C. 1304.

Among the exceptions to country of origin marking is 19 U.S.C. 1304(a)(3)(D), also provided for in section 134.32(d), Customs Regulations (19 CFR 134.32(d)). That section provides that articles for which the marking of their containers will reasonably indicate the country of origin of the articles may be excepted from country of origin marking. However, for the exception to apply Customs must be satisfied that the articles will reach the "ultimate purchaser" in the original, properly marked containers in which the articles were imported. Section 134.1(d), Customs Regulations (19 CFR 134.1(d)), defines the "ultimate purchaser" as generally the last person in the U.S. who will receive the article in the form in which it was imported.

In an information letter, HQ 732988 (May 30, 1990), surmising that the ultimate purchaser of frozen food meals would be the airline rather than the passenger, Customs found that such frozen meals would probably be excepted from individual marking so long as the ultimate purchaser (the airline) received the meals in bulk with proper marking on the outermost container in which they were imported. This remains Customs' position.

In Legal Determination 79-0382 (HQ 710493 dated July 17, 1979), Customs found that the ultimate purchaser was not necessarily the ultimate user or consumer. In that case, dinnerware was imported for sale by the importer to a company that resold it to an airline company for its use in serving in-flight meals. The airline company received the dinnerware in the original, unopened and properly marked bulk containers. There Customs found that the ultimate purchaser was the airline company, not the airline passenger, and the dinnerware was excepted from marking as provided for in 19 U.S.C. 1304(a)(3)(D). However in HQ 724335 (January 16, 1984), Customs found that airline passengers were the ultimate purchasers of plastic cups and glasses of durable nature which the passengers could keep. Accordingly, the cups and glasses had to be marked with country of origin. The distinguishing factor between these two decisions which was determinative as to whether the imported goods should be marked was the fact that in the former decision the passengers could not take the goods with them for use elsewhere, and in the latter decision they could. *Contra*, HQ 729477 (May 2, 1986)

(where Customs found that the ultimate purchasers of air sickness bags were the individual airline passengers who received the bags incidental to the service of air transport for which consideration was paid and for whose convenience they were made available — hence, the bags had to be marked with country of origin.)

For what purpose and in what manner imported goods are to be used has been the focus of several marking decisions which are relevant in the instant case. When imported goods are purchased by an employer for use exclusively at work by its employees, the imported merchandise has been excepted from country of origin marking. *See* HQ 734304 (January 28, 1992) (disposable industrial work coveralls distributed free of charge to employees at an industrial plant (the ultimate purchaser) for use on the job are excepted from individual marking); and HQ 732793 (December 20, 1989) (employers are the ultimate purchasers of industrial work gloves distributed free of charge to employees on the job for use at work; such gloves are excepted from individual marking). Similarly, imported goods purchased by hospitals for use exclusively on the premises by staff or patients have also been excepted from individual marking. HQ 730945 (August 11, 1988) (hospitals are the ultimate purchasers of imported patient identification bracelets; such items are excepted from individual marking); HQ 715640 (June 16, 1981) (hospitals are the ultimate purchasers of imported disposable paper shoe covers, head covers, drape sheets, gowns, towels and other similar products, none of which have to be individually marked to indicate country of origin); HQ 723745 (February 6, 1984) (hospitals are the ultimate purchasers of imported surgical masks; such items do not have to be individually marked); and HQ 730840 (January 12, 1988) (hospitals are the ultimate purchasers of imported surgical gloves; such gloves are excepted from individual marking).

Like imported items purchased by employers and distributed to their employees for use only on work premises and like the various imported items used by hospital staff and patients while on hospital premises, prepared frozen meals are purchased by the airline only for passenger consumption on the airplane during flight. In none of these situations is the imported merchandise ever otherwise sold or intended for retention and use other than on site or in flight. Accordingly, Customs believes that the ultimate purchaser of the frozen meals is the airline, KLM, and not the passenger. Therefore, so long as KLM continues to receive the frozen meals in properly marked master cartons, the individual meals may be excepted from country of origin marking. To the extent that HQ 729477 *supra* is inconsistent with this ruling it is hereby revoked.

Holding:

For purposes of country of origin marking, the ultimate purchaser of frozen airline meals is the airline and not the airline passenger. Accordingly, pursuant to 19 U.S.C. 1304(a)(3)(D) and 19 CFR 134.32(d) the packaged frozen meals are excepted from individual country of origin marking so long as the ultimate purchaser, KLM, receives the frozen

meals in bulk in the original, unopened master cartons which are properly marked with country of origin.

JOHN DURANT,
Director,
Commercial Rulings Division.

(C.S.D. 93-4)

This ruling holds that the public domain element in the instant case compels the U.S. Customs Service to conclude that if a copyrighted item has only minor differences from the public domain item, the regulations will be enforced as if no copyright certificate exists (17 U.S.C. 103, 19 CFR 133.43, 19 CFR 133.44(b), C.S.D. 86-23).

DEPARTMENT OF THE TREASURY,
U.S. CUSTOMS SERVICE,
Washington, DC, August 18, 1992.

File: TRA CO:I:IT:I 453234 TPT
Category: Copyright

DISTRICT DIRECTOR OF CUSTOMS
U.S. CUSTOMS SERVICE
909 First Avenue
Room 2039
Seattle, WA 98174

Re: Suspected infringement of Russ Berrie's Troll doll copyright (U.S. Copyright Office Registration Nos. VA 462-387, VA 462-390; Customs Recordation Issuance Nos. Cop 91-00300, Cop 91-00301)

DEAR SIR:

This is in response to your memorandum dated March 12, 1992, wherein you requested that this office provide a legal opinion as to whether certain detained troll dolls infringe the copyrights referenced above.

Facts:

The Entry Summary (Customs Form 7501) indicates that the subject troll dolls were imported on November 5, 1991, and that the entry date was November 11, 1991. Customs notified the importer by a letter dated December 5, 1991, that the troll dolls were suspected of infringing copyright registration VA 462-387. Because the merchandise had been released, Customs requested that it be given constructive custody of the merchandise.

In a letter dated January 3, 1992, the importer denied the allegation of infringement and informed Customs that the merchandise was not available for re-delivery or detention.

In accordance with section 133.43 of the Customs Regulations (19 C.F.R. 133.43), Customs notified the copyright owner regarding this shipment by letter dated January 8, 1992. The copyright owner, through counsel, responded and requested that Customs deny entry to the shipment and deposited a bond in the amount of \$2,500 by a letter dated February 3, 1992.

Issue:

Whether the imported troll doll is substantially similar to the copyrighted troll dolls referenced above?

Whether the evidence, arguments, and law provide sufficient grounds to disregard the claims to derivative work copyrights in the trolls referenced above?

Law and Analysis:

The role of Customs in issuing substantive decisions of copyright infringement as to imported merchandise was addressed recently in *The Miss America Organization v. Mattel, Inc.*, 945 F.2d 536 (2nd Cir. 1991). Citing section 603 of the Copyright Law (17 U.S.C. 603) the court recognized Customs authority to enforce the provisions of the law prohibiting importations of infringing goods. *Mattel*, 945 F.2d at 538. Also, the court acknowledged that as a result of its duties, Customs has developed expertise in determining whether merchandise does or does not infringe. *Id.* at 539. Further, the court stated that since sections 602 and 603 (17 U.S.C. 602, 603) direct the Secretary of Treasury to enact regulations to aid in combatting copyright infringement, it is implicit in these directions that the agency (Customs) would be involved in making infringement determinations. *Id.* at 541. Therefore, because the Treasury Department has been assigned the duty to enforce the copyright laws in cases where there is a reason to believe infringement exists as to an imported item, it follows that it is within Customs jurisdiction to take any action to fulfill this duty. *Id.* at 542.

Customs has some independence and autonomy in making infringement determinations regarding imported merchandise. *Id.* at 544. The court stated that there is no reason to enjoin Customs from performing its statutory duties so long as the agency proceeds in conformity with the statutory scheme. *Id.*

A party claiming infringement of its copyright must prove that it owns the copyright, that the alleged infringer had access to the copyrighted work, and that there is substantial similarity between the copyrighted work and the alleged infringing work. *Aliotti v. R. Dakin & Co.*, 831 F.2d 898, 900 (9th Cir. 1987). A party makes a *prima facie* case as to copyright ownership by submitting the copyright registration which carries with it a presumption of validity and ownership. 17 U.S.C. 410(c); *Folio Impressions, Inc. v. Byer California*, 752 F. Supp. 583, 585 (S.D.N.Y. 1990), *aff'd*, 937 F.2d (2nd Cir. 1991); *Quaker Oats Co. v. Mel Appel Enterprises, Inc.*, 703 F. Supp. 1054, 1058 (S.D.N.Y. 1989). Upon presentations of a registration certificate the burden of proof shifts to

the defendant to introduce evidence of invalidity. *Original Appalachian Artworks, Inc. v. The Toy Loft, Inc.*, 684 F.2d 821 (11th Cir. 1982).

Access to a copyrighted work may be established by direct proof of copying or by circumstantial evidence that an alleged infringer had access to the copyrighted work. *Gund, Inc. v. Russ Berrie and Co., Inc.*, 701 F. Supp. 1013, 1018 (S.D.N.Y. 1988). Whether a work is substantially similar to another is determined by the "ordinary observer" test which is whether the ordinary observer would be disposed to overlook the disparities of the works and regard their aesthetic appeal as the same. *Id.* at 1018. A determination that copying has taken place does not require a finding that every detail is the same, the key being the similarities rather than the differences. *Id.* at 1018.

Imported articles which infringe a copyright are prohibited importations under section 602(b) of the Copyright Act and such articles are subject to seizure and forfeiture under section 603(c) of the Copyright Act. These articles are seized and forfeited in the same manner as goods imported in violation of the Customs revenue laws. 17 U.S.C. 603. Alternatively, infringing articles may be returned to the country of export whenever it is shown to the satisfaction of the Secretary of the Treasury (Customs) that the importer had no reasonable grounds for believing that its acts constituted a violations of law. 19 C.F.R. 133.47. The party claiming that an imported article is infringing shall bear the burden of proof. 19 C.F.R. 133.43(c)(1).

The copyright which is at issue here is VA 462-387 which covers the three and a half inch troll doll. Russ Berrie contends that the more appropriate registrations is VA 462-390 which covers the four inch troll. The detained troll is two and a half inches.

Russ Berrie asserts that all the trolls recorded with Customs are covered by U.S. Copyright Office registrations which constitute *prima facie* presumption of validity. *Masquerade Novelty, Inc. v. Unique Industries, Inc.*, 912 F.2d 663 (3rd Cir. 1990). It further argues that the copyrighted troll figure is derived from two dimensional photographs of an earlier version of a Russ troll doll and, thus, the current three dimensional works are derivative works subject to copyright protection under section 103 of the Copyright Law (17 U.S.C. 103).

Russ Berrie states that it made full disclosure to the Copyright Office in applying for its copyright registration. It asserts that full disclosure was made of the two dimensional troll from which its three dimensional troll was derived. In *Scandia House Enterprises, Inc. v. Dam Things, Est.*, 243 F. Supp. 450 (D.D.C. 1965) the court found troll dolls to be in the public domain. Russ Berrie concedes that the underlying two dimensional trolls might be identical to or substantially similar to the public domain troll doll. Russ Berrie Memorandum at p. 4. Based upon the information provided, the Copyright Office granted the registration in August, 1991.

Russ Berrie asserts that in making these new troll dolls many features were changed. It states that the eyelids were rounded, the eyes were

made closer together, the chin was sculptured to come after the smile line, the space between the nose and mouth was shortened, the eye color was changed, the hairline width was made longer, the head was made larger in proportion to the body, the ears were rounded, the nose was made more puggish, and rouge was removed from the cheeks. Also, in addition to these changes to the head, the copyright owner contends that other parts of the body were changed. It states that the entire back of the sculpture is original and changes were made to the legs, chest, bottom, toes, hands.

The copyright owner relies upon *Feist Publications, Inc. v. Rural Telephone Service Company, Inc.*, 499 U.S. ____ 111 S. Ct. 1282 (1991), for the standard for originality. The Court stated that "original" means work that is independently created and possesses at least some minimal degree of creativity, the level of which is extremely low and that the vast majority of works have the requisite creativity no matter how crude, humble, or obvious. *Id.* at 1287. Russ Berrie argues that even if its original troll dolls are in the public domain because they were made from the molds used to make the dolls ruled upon in 1965, the changes made to create the current three dimensional dolls are protectable as derivative works.

The importer argues that Russ Berrie has offered no evidence to support validity of its VA 462-387 copyright. Additionally, it argues that for Customs to fail to address the issue of validity denies due process where exclusion of merchandise may take place without consideration of the issue.

The importer contends that once the *prima facie* evidence validity exists based upon the presentation of a registration certificate, the importer may submit evidence to rebut the presumption by showing that the copyrighted work merely copied or presented trivial variations of a public domain work. *Russ Berrie & Co. v. Jerry Elsner Co.*, 482 F. Supp. 980 (S.D.N.Y. 1980). In arguing that the copyright at issue here is invalid, the importer asserts that troll dolls have been considered to be in the public domain as a result of the decision in *Scandia House*. It argues that public domain works may be freely copied. *Russ Berrie & Co.* 482 F. Supp. at 985. Conceding that the copyright law extends protection to that material which an author contributes to a pre-existing work, the importer contends that the copyrighted trolls fail to have the requisite requirements for a valid copyright of a derivative work.

The importer argues that in order to obtain a copyright in a derivative work, the material which is added to the pre-existing work must be substantial, not merely trivial. *Sherry Manufacturing Company, Inc. v. Towel King of Florida, Inc.*, 753 F.2d 1565 (11th Cir. 1985). The importer asserts that the copyright owner may prevail only if the copyrighted troll doll differs substantially from the public domain troll doll. *L. Batlin & Son, Inc. v. Snyder*, 536 F.2d 486 (2nd Cir. 1976), cert. denied, 429 U.S. 857 (1976). The importer contends that there are fewer differences between the Russ Berrie troll doll and the public domain troll doll than

what was found in *L. Batlin* where the court invalidated a copyright for a derivative work.

In support of its position that the Russ Berrie troll doll is substantially similar to the public domain troll, the importer provides Mr. Russ Berrie's testimony in *EFS Marketing, Inc. v. Russ Berrie & Company, Inc.*, 21 U.S.P.Q. 2d 1993 (S.D.N.Y. 1991) (decision denying preliminary injunction sought by plaintiff and denying summary judgment sought by defendants). The importer offers Mr. Berrie's statement that he made minor changes to the public domain doll by rounding the ears, changing the jawline, and derouging or dereddening the face. The importer argues that these are merely trivial changes and that copyright protection does not extend to these minor variations.

Customs Determination

As a general rule Customs has not addressed the issue of validity of a copyright except to state that the existence of a registration certificate constitutes *prima facie* evidence of validity pursuant to section 410 of the Copyright Law. Customs has been careful not to appear to encroach on the courts' functions of passing on a certificate's validity since the registrant vouches for the independence and originality of a copyright when it is signed. 20 *Cust. B. & Dec.* 646 (C.S.D. 86-23, 1986) (hereinafter C.S.D. 86-23). However, because both parties in the instant matter present and argue the issue, we are compelled to discuss it.

Although the facts in C.S.D. 86-23 are very different than the instant case, it does provide some background. In C.S.D. 8623 Customs was faced with imported merchandise which became the subject of a copyright registration after the importation occurred. The merchandise was suspected of infringing another copyright registration which covered the same merchandise. In this ruling Customs stated that

Although a copyright registration certificate acquired prior to importation is arguably somewhat more persuasive of originality than one obtained only after Customs has seized or detained imported goods, it is similarly subject to question and may be disregarded when other evidence indicates piratical copying.

Id. at 648.

Further, Customs held in that case that if evidence clearly indicates piratical copying or reason to suspect such copying of a copyrighted work recorded with Customs and the imported article is covered by a copyright certificate (whether obtained before or after importation), Customs officers shall institute the procedures set forth in section 133.43. Therefore, Customs does not now venture into resolving the issue of a questionable copyright registration certificate without having contemplated this possibility in the past albeit under a different factual setting.

In an effort to resolve this issue, we look to the copyright laws and judicial opinions available to reach a reasoned conclusion. First, section 103 of the Copyright Law (17 U.S.C. 103) explicitly provides for protec-

tion of derivative works. We look to judicial opinions which have dealt with the question of whether a derivative work has sufficient original authorship to warrant copyright protection.

An issue to be resolved in copyright infringement cases is the issue of validity. *Masquerade Novelty*, 912 F.2d at 667; *Durham Industries, Inc. v. Tomy Corporation*, 630 F.2d 905, 908 (2nd Cir. 1980); *Folio Impressions, Inc.* 752 F. Supp. at 585; *Russ Berrie & Co.*, 482 F. Supp. at 984. The court in *Mattel* stated that when infringement cases arise in the context of imported merchandise, it is within the jurisdiction of Customs to fulfill the duties explicitly tasked to the Department of the Treasury, i.e., to enforce the provisions of the law prohibiting importation of infringing goods. *Mattel*, 945 F.2d at 538. Although we see implicit in the court's language that Customs may address any issue that is raised in connection with determining whether copyright infringement exists, we do not choose to take the step of invalidating the registration.

Customs's role of enforcement is different from that of the U.S. Copyright Office's role as a registry. Since our decisions may have the effect of depriving one of his/her property, we must engage in the type of legal analysis conducted by the courts. It is instructional for us to review cases wherein works were derived from the public domain or from works subject to copyright registrations, but found to be invalid upon challenge in the courts.

The *L. Batlin* case involved a copyright recorded with U.S. Customs where a copyrighted plastic bank derived from a cast iron bank in the public domain. The cast iron bank is referred to as an Uncle Sam mechanical bank which was known to exist as early as 1886 and had long since passed into the public domain. The court described the bank as

Uncle Sam, dressed in his usual stove pipe hat, blue full dress coat, starred trousers, and leaning on his umbrella, stands on a four-or five-inch wide base, on which sits his carpet bag. * * * The base has an embossed American eagle on it with the words "Uncle Sam" on streamers above it, as well as the word "Bank" on each side.

L. Batlin, 536 F.2d at 488.

Defending the copyrighted plastic work, the copyright owner in *L. Batlin* argued that in addition to the difference in size, that his carpet bag in his plastic bank was smoother than the cast iron bank, that the metal bank had a fatter base, that the eagle in the cast iron was holding arrows while on the plastic bank the eagle was holding leaves, that the shapes of Uncle Sams were different, and the shapes and texture of the hats were different.

Additionally, the copyright owner claimed that the umbrella hung loose on the cast iron bank but not on the plastic bank and that the texture of the clothing, the hairline, shape of the bow ties and of the shirt collar, left arm, and the flag bearing the name on the base of the statue were all different. The court, however, concluded that these differences were not "perceptible to the casual observer." *Id.* at 489.

The court concluded that the public domain cast iron bank and the plastic bank, the subject of a copyright registration, were extremely similar except for the size and material. *Id.* The court stated that other than the size the only other differences were the shape of the satchel and the leaves in the eagles talons. *Id.* The court reviewed those features which were similar. The similar features were summarized by "the appearance and number of stripes on the trousers, buttons on the coat, and stars on the vest and hat, the attire and pose of Uncle Sam, the decor on his base and bag, the overall color scheme." *Id.*

The court found that there must be independent creation and that there must be some substantial, not trivial originality. *Id.* at 490. The court, therefore, affirmed the lower court's factual finding that the differences were infinitesimal. *Id.* at 489.

In *Gracen v. Bradford Exchange*, 698 F.2d 300 (7th Cir. 1983), a copyright in a derivative work was denied because there was not substantial difference between a still photograph of Judy Garland in the Wizard of Oz and Miss Gracen's painting of Judy Garland. Scenes from the movie were provided to contestants. The contestants were asked to give their interpretations through paintings. The picture of Judy Garland provided by Bradford Exchange and the painting done by Miss Gracen have differences (Reproduced as part of the reported case). Although, we do not enumerate all the differences here, we note that the two pictures reproduced in the reported case do differ in that Miss Gracen's painting has Judy Garland standing on a brick road and a wooden fence on one side of the road, two features absent in the photograph provided by the Bradford Exchange to its contestant. However, despite these two obvious differences and other minute ones, the court rejected Miss Gracen's argument that she possessed a copyright in her work as derivative work because the differences were not substantial enough. *Id.* at 305.

Finally, in *Sherry Manufacturing Company, Inc. v. Towel King of Florida, Inc.*, the work at issue was a design on beach towels. Sherry Manufacturing first marketed its towels with the design in the 1960's. The design was a decorative scene depicting three palm trees growing out of some sand, an ocean view above the sand with a sailboat in the right lower corner, and clouds above the ocean horizon. The design was not copyrighted and was public domain material.

In the mid-seventies, Sherry Manufacturing wanted to obtain copyright protection for its designs. This original design was changed. The redesign involved changes in the dimension of the beach, trees, and water. The new design was submitted for registration and a copyright registration was issued. The copyrighted work was subsequently corrected due to a watermark defect. When it was discovered that Towel King was marketing a towel which copied Sherry's design, the suit followed.

The district court judge found Towel King's design to be virtually identical to the copyrighted design except for the way the word Florida appeared on the towels, a difference in one cloud on the left side of the

palm trees, and a reduction of the sand below the palm trees. Towel King's design even included the watermark defect. *Id.* at 1566. At issue on appeal was whether the new Sherry design was copyrightable.

The court concluded that based upon a side by side comparison, the contributions by Sherry's artist were too trivial and too insubstantial to justify copyright protection. *Id.* The trial judge listed the differences between Sherry's public domain design and the copyrighted design.

- (a) The extent of the seawater portion of the scene is painted differently.
- (b) The amount of sand beneath the tree was increased to change the impression from an island to a beach.
- (c) The leaves of the palm tree are sharper and more lifelike.
- (d) The clouds on the new design were painted differently.
- (e) The effect of the wind in the overall impression is diminished.
- (g) The water was lowered approximately three inches. On [Sherry's Original Design] some of the palm leaves touched the water. In [Sherry's New Design] they are two inches away.
- (h) The leaves of the palm tree are different. The right small palm leaves are totally spread from the center palm tree trunk.

Id. at 1568. (no subsection (f) in the trial court's fact finding.)

Upon reviewing the lower court's findings, the court of appeals concluded that these distinguishing features were so minor that they were virtually unnoticeable upon a cursory comparison. *Id.* The court continued that those differences which were noticeable were so only because they involved simple changes in spacing and dimensions of non-detailed features. The court stated that copyright protection was intended to apply to works with more recognizable originality, especially in cases such as this where the primary purpose of making changes was to make the work copyrightable, and to make it more aesthetically appealing. *Id.*

Applying these principles to the instant matter, initially, we disagree with the copyright owner, Russ Berrie, that the *Scandia* case is irrelevant to this case. We must be cognizant of those characteristics and features of the troll doll which are in the public domain and may be copied by any one. Works substantially derived from pre-existing works, whether copyrighted or in the public domain, are subject to copyright protection so long as the derivative work itself is original as long as the original aspects are nontrivial and do not affect the underlying work. *Knickerbocker Toy Co., Inc. v. Winterbrook Corp.*, 554 F. Supp. 1309, 1317 (D.N.H. 1982).

The copyright owner's reliance upon *Feist* is misplaced. *Feist* focused on compilations. In the instant case, the issue presented involves derivative works. Since we find sufficient case law on derivative works, we obtain our guidance from these cases.

Next, we turn to the features of the Russ Berrie trolls, the imported troll, and the public domain troll. Again, we disagree with the copyright owner's contention that Mr. Berrie's testimony in another action is irrelevant in the instant matter. Mr. Berrie's testimony in *EFS* has been submitted as part of the record before us and shall be considered. While

we understand that the *EFS* case involves a trade dress issue, the significance of the testimony is that Mr. Berrie provides a historical background for his trolls in a copyright context.

From the copyright owner's petition, Russ Berrie Petition at 10 n.2, and Mr. Berrie's testimony, it is stated that Mr. Berrie's company bought troll doll molds from a Florida company which made the public domain troll doll for Scandia. Importer's Exhibit C at p. 256, 273 (hereinafter 'Imp. EX.') Mr. Berrie's company used the same molds to make troll dolls in 1972, Berrie Pet. at 10 n.2, and in 1976. Imp. Ex. C at p. 275. In the late 1980's Mr. Berrie sent the work abroad for manufacturing, still using photographs of earlier troll dolls, but asking that they be enlarged. *Id.* at p. 279. In a series of questions and answers concerning copyrighting the pencil topper troll, Mr. Berrie testified that the changes involved were as to the ears, jaw line, rounding cheeks, removing rouge color, and adding other elements. *Id.* at pp. 279-281.

Mr. Berrie's affidavit in the *EFS* case, Imp. Ex. D, confirms that his troll dolls, old and new, incorporate features of public domain trolls. *Id.* at p. 13. Specifically, he states that these public domain elements are pointed ears, puggish nose, pot belly, big eyes, wild hair, and outstretched arms. *Id.* The only changes Mr. Berrie refers to are the changes in the ears, jaw line, rounding cheeks, removing rouge color, and adding other elements (unspecified).

We now turn to the actual comparison of the troll dolls. We agree that the importer's two and a half inch troll doll is substantially similar, if not identical, to the three and a half and four inch copyrighted dolls (which are identical except the size). However, when the copyrighted dolls are compared to a public domain doll, we see that they have pot bellies, outstretched arms, big round eyes, wild hair, and bulbous noses. Also, if changes have been made to the backs of the copyrighted doll, we see no discernable differences other than the minor difference in the angle of bend at the knee. The differences are slight in that the dolls are slightly different shades of flesh color, the ears of the copyrighted work are not as pointed, and there is slightly more of a chin on the copyrighted works. In our side by side comparison we do not notice many of the changes noted by the copyright owner. After reviewing *L. Batlin, Gracen, and Sherry Manufacturing Company*, we conclude that the similarities between the public domain doll and the protected works are substantial and that the differences, in our judgment, are trivial. We are of the opinion that an ordinary observer would overlook the differences because they are trivial and insubstantial.

Concerning the importer's argument that it is denied due process where Customs does not make a finding on the issue of validity, we believe that the procedural mechanisms available are sufficient. In cases where Customs finds infringement, an importer may challenge the substantive merits during proceedings for judicial forfeiture. See 19 U.S.C. 1608; 19 C.F.R. 162.47. Therefore, we conclude that the procedural

mechanisms now available provide the importer with due process to challenge Customs seizures and forfeitures.

This forum has not in the past found a copyright invalid and we choose not to do so here. However, Customs will enforce its regulations as though no copyright certificate exists. *See C.S.D. 86-23.*

Although the decision above makes any further findings unnecessary, we do address an additional point made by the importer. The documents submitted by the importer demonstrate that the troll doll which was imported is Item No. M2287, two and a half inch troll doll. The importer has provided entry documents related to a 1989 shipment which indicates that this item was imported prior to the creation of the troll doll covered by copyright registration VA 462-387 (work created 1990, first published May 13, 1991).

Although these documents are provided in order to permit Customs to conclude that the item currently detained is the same as the item imported in 1989, we can not reach this conclusion. The 1989 invoice refers to the Item No. M2287 as small trolls. Additionally, the photocopies from the catalogue, when compared to the detained troll appears to be different. Therefore, we can not conclude that the item detained and the items imported in 1989 are identical based upon the questionable quality of the black and white photocopy.

Holding:

Customs will enforce its regulations as if there is no valid certificate of registration covering this claim to copyright. C.S.D. 86-23. Therefore, based upon the foregoing, we conclude that there is no infringement by the imported item on the Russ Berrie troll dolls at issue.

A copy of this decision may be provided to the copyright owner and importer. Finally, in view of the decision that infringement does not exist in this case, the bond deposited by the copyright owner shall be transmitted to the importer pursuant to 19 C.F.R. 133.44(b).

JOHN F. ATWOOD,

Chief,

Intellectual Property Rights Branch.

(C.S.D. 93-5)

This ruling holds that a cartman may not employ vehicle owner operators as independent contractors to perform cartage operations. A cartman may use vehicles to perform cartage operations when not in possession of a legal title owed to a chattel mortgage held by a bank or a lease agreement from a truck dealership (19 U.S.C. 1565, C.S.D. 82-26 affirmed).

DEPARTMENT OF THE TREASURY,
U.S. CUSTOMS SERVICE,
Washington, DC, February 1, 1993.

File: CAR-2 CO:R:C:E 224253 AJS
Category: Cartage

DISTRICT DIRECTOR
U.S. CUSTOMS SERVICE
300 South Ferry Street
Terminal Island
San Pedro, CA 90731

Re: Cartman; C.S.D. 82-26; 19 U.S.C. 1565; 19 CFR 112; 19 CFR 112.1(b); 19 CFR 112.2(b); 19 CFR 112.21; 19 CFR 112.22; 19 CFR 112.27; 19 CFR 112.29; 19 CFR 112.41; HQ 222402; independent contractor; H. Reuschlein & W. Gregory, *Agency and Partnership*.

DEAR DISTRICT DIRECTOR:

This is in reply to a memorandum of October 16, 1992, which forwarded your concerns regarding Customs Legal Determination 81-0198 of December 24, 1981, also published as C.S.D. 82-26 in 16 Cust Bull. 721 (1982). This decision held that a bonded cartman may not use vehicles belonging to another person nor persons who are employees of another firm to conduct its own cartage operations.

Facts:

Certain companies are leasing vehicles or employing vehicle owner operators as independent contractors to perform cartage operations.

Issue:

Whether a cartman may lease vehicles or employ vehicle owner operators as independent contractors to perform cartage operations.

Whether a cartman may perform cartage operations using vehicles in which they do not possess legal title because of a chattel mortgage held by a bank or a lease agreement from a truck dealership.

Law and Analysis:

The law governing Customs cartage, section 565 of the Tariff Act of 1930, as amended (19 U.S.C. 1565) provides that:

The cartage of merchandise entered for warehouse shall be done by cartmen to be appointed and licensed by the appropriate customs officer and who shall give a bond, in a penal sum to be fixed by such

customs officer, for the protection of the Government against any loss of, or damage to, such merchandise while being so carted. The cartage of merchandise designated for examination at the appraiser's stores and of merchandise taken into custody by the customs officer as unclaimed shall be performed by such persons as may be designated, under contract or otherwise, by the Secretary of the Treasury, and under such regulations for the protection of the owners thereof and of the revenue as the Secretary of the Treasury shall prescribe.

The Customs Regulations on the licensing of cartmen issued under the authority of this law are found in Part 112 of the Customs Regulations (19 CFR Part 112). A "cartman" is defined in 19 CFR 112.1(b) as "one who undertakes to transport goods or merchandise within the limits of the port." Under 19 CFR 112.2(b), "[a] bond and license provided for in this part [i.e., Part 112] are required to transact business as a cartman *** for the cartage *** of merchandise entered for warehouse, designated for examination, taken to container stations, or taken into custody as unclaimed."

Subpart C of part 112 of the Customs Regulations provides for the licensing of cartmen. Under section 112.21, a customhouse cartage license is required to perform Customs cartage, with certain exceptions inapplicable in this case. Section 112.22 contains the requirements for applying for a cartage license. An applicant for such a license is required to file with the appropriate district director: (1) a bond on Customs Form 301 containing the conditions provided for in 19 CFR 113.63 in an amount specified by the District Director; (2) a fee of \$100; and (3) if required by the District Director, a list of the names and addresses of the managing officers and members of the organization or of the persons who will receive or transport imported merchandise which has not been released from Customs custody, or a list of all such persons and their addresses. In addition, a cartman licensed by city or State authorities is required to present to the district director their city and State license. Vehicles licensed by Customs for cartage must be marked with the Customs license number (19 CFR 112.27). Customs may require licensed cartmen to make, keep, and submit to Customs records of cartage and a current list of the organization's managing directors and persons who will receive or transport imported merchandise which has not been released from Customs custody (19 CFR 112.29). Customs may require licensed cartmen and each employee thereof who handles imported merchandise which has not been released from Customs custody to carry, and display upon request, an identification card (19 CFR 112.41).

In HQ 222402 (July 26, 1990) (copy attached), Customs ruled that a corporation may not be licensed as a Customs cartman when a second corporation provides the vehicles and drivers under a lease arrangement with the first corporation. We stated that there is no provision permitting two entities to be a cartman, and the binding of one corporation or legal person to the conditions of a cartman's license cannot bind another corporation (i.e., a separate and distinct legal being) to those con-

ditions. To rule otherwise would allow a corporation which is not bound to the conditions of the cartman's license to be the responsible entity with regard to many, if not most, of the requirements for cartmen under the Customs Regulations (i.e., provision of the names and addresses of the managing officers and persons who will handle imported merchandise which has not been released from Customs custody, marking of the vehicles with the Customs license number, keeping of records of cartage, and carrying and displaying of identification cards by the cartman and employees who will handle imported merchandise which has not been released from Customs custody). We also cited C.S.D. 82-26 as support for this decision.

In this instance, your memorandum states that companies are leasing vehicles or employing owner operators as independent contractors to perform their cartage operations. In the original letter addressed to our office raising this issue, the company in question was a California corporation. Therefore, we assume that these companies are corporations. As stated previously, a corporation may not lease vehicles and use drivers from another corporation to perform cartage operations. We also find no reason to not apply this principle to a situation in which a corporation is using trucks owned by independent contractors. An independent contractor is "[a] person who contracts with another to do something for them but who is not controlled by the other nor subject to the other's right to control with respect to their physical conduct in the performance of the undertaking." H. Reuschlein & W. Gregory, *Agency and Partnership*, 4 (1978). Consequently, an independent contractor would not be controlled by the corporation nor subject to its right to control concerning the physical conduct of the cartage operations. This type of relationship would lead to a situation in which an independent contractor, which is not bound to the conditions of the cartman's license issued to the corporation, is the responsible entity with regard to many, if not most, of the requirements for cartmen under the Customs Regulations. As in HQ 222402, we are of the view that this form of operation is not permissible. It would permit two legal entities (i.e., a corporation and independent contractor) to be a cartman, and attempt to bind one legal person to the conditions of a cartman's license issued to another legal person.

The issue has also been raised concerning situations in which a cartman does not possess legal title to the trucks because of a chattel mortgage held by a bank or a lease agreement from a truck dealership. In both instances, we assume that the trucks are under the physical control of the cartman and operated by one of their employees. In our view these types of cartage operations are permissible because of the important factual differences regarding control of the cartage operations which exists between these operations and the previously discussed situations. As opposed to a situation involving owner operators as independent contractors, the cartman without legal title would be responsible for the physical conduct of the cartage operations through their

employees and physical control of the trucks. As opposed to a situation involving trucks and drivers used from another corporation, the cartman without legal title would be the only legal entity operating as a cartman as well as the responsible legal entity for compliance with the requirements of the Customs Regulations.

We are not aware of any other legal determinations which address this issue. If you have any additional questions, please contact Allan Steven-son of my office at (202) 482-7040.

Holding:

A cartman may not employ vehicle owner operators as independent contractors to perform cartage operations. A cartman may use vehicles to perform cartage operations in which they do not possess legal title because of a chattel mortgage held by a bank or a lease agreement from a truck dealership.

JOHN DURANT,
Director,
Commercial Rulings Division.



U.S. Customs Service

General Notice

COUNTRY OF ORIGIN MARKING FOR WATCHES

AGENCY: U.S. Customs Service, Department of the Treasury.

ACTIONS: Notice.

SUMMARY: The U.S. Customs Service is reviewing its policy on the country of origin marking for watches. Presently, many watches are being imported into the United States with country of origin markings that are not conspicuous and are so tiny that they are very difficult to find and to read. Customs proposes to ensure that the country of origin marking on watches be conspicuous and legible and to provide some factors that will be used to determine whether a marking is conspicuous. Because this stricter enforcement of the country of origin marking law could have an impact on certain members of the public this document invites public comments on the subject.

ADDRESS: Written comments (preferably in triplicate) may be addressed to and inspected at the Regulations and Disclosure Law Branch, U.S. Customs Service, 1301 Constitution Avenue, NW (Franklin Court), Washington, D.C. 20229.

DATE: Comments must be received by April 9, 1993.

FOR FURTHER INFORMATION CONTACT: Robert S. Dinerstein, Office of Regulations and Rulings, U.S. Customs Service, 1301 Constitution Avenue, NW (Franklin Court), Washington, D.C. 20229 (202-482-6990).

SUPPLEMENTARY INFORMATION:

BACKGROUND

Section 304 of the Tariff Act of 1930, as amended (19 U.S.C. 1304), provides that, unless excepted every article of foreign origin imported into the United States shall be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article will permit, in such a manner as to indicate to the ultimate purchaser in the United States the English name of the country of origin. Under section 134.41(b), Customs Regulations (19 CFR 134.41(b)), a country of origin

marking is considered conspicuous if the ultimate purchaser in the United States is able to find the marking easily and read it without strain.

It has come to the attention of the Customs Service that over the years watches have been imported into the United States with very tiny country of origin markings. Usually these markings are in very small letters on the bottom of the dial (face) of the watch. Generally, these markings are exceptionally difficult to find and read. In fact, the country of origin markings on many watches are so tiny that a magnifying glass is needed in order to read them. Country of origin markings on watches which are so difficult to see and read are not conspicuous or legible and are not acceptable country of origin marking under 19 U.S.C. 1304. Customs proposes to review its policy to ensure that the country of origin marking on watches is legible and conspicuous.

Marking Must be Conspicuous:

Customs proposes not to permit the importation of watches into the United States unless they are conspicuously marked with their country of origin. As guidance, Customs has previously set forth some factors to consider in determining whether the country of origin marking on an imported article is conspicuous within the meaning of 19 CFR 134.41 and 19 U.S.C. 1304. Customs has stated that among these factors are the size of the marking, the location of the marking, whether the marking stands out, and the legibility of the marking.

Size and Legibility of Marking:

The size of the marking should be large enough so that the ultimate purchaser can easily see the marking without strain. The location of the marking should be in a place on the watch where the ultimate purchaser could expect to find the marking or where he/she could easily notice it from a casual inspection. Whether the marking stands out is dependent on where it appears in relationship to the other print on the watch and whether it is in contrasting letters to the background. The legibility of the marking is determined by the clarity of the letters and whether the ultimate purchaser could read the letters of the marking without strain. No single factor is considered conclusive in determining whether a marking meets the conspicuousness requirement of 19 CFR 134.41 and 19 U.S.C. 1304. Instead, it is the combination of these factors which will determine whether the marking on a watch is acceptable.

Location of Marking:

Although traditionally the country of origin marking has appeared on the dial (face) of a watch, there is no requirement that the marking appear in that location. The marking may also appear on the back of the watch case, unless the watch is or will be packaged for retail sale in a manner which would prevent the ultimate purchaser from seeing the marking before buying the watch. In addition, the country of origin marking can be done through a variety of different methods such as die stamping, etching, or engraving. Any method of marking is sufficient so

long as it is permanent. No matter where the marking appears or what method of marking is used, the marking must be large and clear enough so that the ultimate purchaser of the watch can easily find it and read it with the unaided eye.

DELAY IN EFFECTIVE DATE

We recognize that the public may need time to adjust to this stricter enforcement of the conspicuous country of origin marking requirements for watches and that an abrupt change in this enforcement could cause an undue hardship. Therefore, Customs specifically invites comments addressing on what would be an appropriate date for the implementation of the stricter enforcement of the country of origin marking on watches.

The proposed notice will not affect any of the special marking requirements for watches indicated in Chapter 91, Additional U.S. Note 4 of the Harmonized Tariff Schedule of the United States.

REQUEST FOR COMMENTS

Accordingly, Customs is requesting interested parties to submit comments on ensuring that the country of origin marking on watches be conspicuous and permanent. Before making a final determination in this matter, consideration will be given to any written comments timely submitted to Customs. Comments submitted will be available for public inspection in accordance with the Freedom of Information Act (5 U.S.C. 552) and section 1.6 Treasury Department Regulations (31 CFR 1.6) and section 103.11(b), Customs Regulations (19 CFR 103.11(b), on regular business days between the hours of 9:00 a.m. and 4:30 p.m. at the Regulations and Disclosure Law Branch, U.S. Customs Service Headquarters, 1301 Constitution Avenue, NW (Franklin Court), Washington, D.C. 20229.

DRAFTING INFORMATION

The principal author of this document was Robert Dinerstein, Value and Marking Branch, Office of Regulations and Rulings; U.S. Customs Service. However, personnel from other Customs offices participated in its development.

Dated: December 11, 1992.

HARVEY B. FOX,
Director,
Office of Regulations and Rulings.



United States Court of International Trade

One Federal Plaza
New York, N.Y. 10007

Chief Judge
Dominick L. DiCarlo

Judges

Gregory W. Carman
Jane A. Restani
Thomas J. Aquilino, Jr.

Nicholas Tsoucalas
R. Kenton Musgrave
Richard W. Goldberg

Senior Judges

James L. Watson
Herbert N. Maletz
Bernard Newman
Samuel M. Rosenstein

Clerk

Joseph E. Lombardi



Decisions of the United States Court of International Trade

(Slip Op. 93-21)

TSUYOSHI NAKAMURA, PLAINTIFF *v.* JOHN H. HEINRICH, DISTRICT DIRECTOR OF CUSTOMS, LOS ANGELES CUSTOMS DISTRICT, AND JOHN H. HEINRICH IN HIS INDIVIDUAL CAPACITY, DEFENDANT

Court No. 91-08-00547

[Plaintiff applies for costs and attorney's fees under the Equal Access to Justice Act. *Held:* Costs and fees are awarded for civil action against District Director of Customs in his official capacity, and denied for civil action against individual and for administrative proceeding.]

OPINION

(Decided February 17, 1993)

Politis, Pollack & Doran, (John N. Politis) for plaintiffs.

Stuart M. Gerson, Assistant Attorney General; Joseph I. Liebman, Attorney in Charge, International Trade Field Office (Mark S. Sochaczewsky) for defendant.

MUSGRAVE, Judge: This case is before the Court on plaintiff Tsuyoshi Nakamura's application for fees and expenses pursuant to the Equal Access to Justice Act ("EAJA"), 28 U.S.C. § 2412 (1992). In the underlying suit, plaintiff sought *mandamus* ordering the District Director of Customs for the District of Los Angeles to issue him a Customs broker's permit, and also sued the District Director in his individual capacity for damages. The suit against the District Director in his individual capacity was dismissed for failure to state a claim. Plaintiff prevailed in the *mandamus* action. *Nakamura v. Heinrich*, Slip Op. 92-13 (CIT 1992).

The EAJA provides for an award of reasonable attorney's fees and costs to the prevailing party in any civil action other than cases sounding in tort, including proceedings for judicial review of agency action, brought by or against the United States in any court having jurisdiction of that action, unless the court finds that the position of the United States was substantially justified or that special circumstances make an award unjust. 28 U.S.C. § 2412 (d)(1)(A) (1992). The "position of the United States" includes the action or failure to act by the agency upon which the civil action is based as well as the position taken in the civil action. § 2412(d)(1)(D).

There is no dispute that plaintiff is a prevailing party on his claim against the District Director in his official capacity. However, plaintiff

not only did not prevail in his claim against John Heinrich in his individual capacity, that claim was not "by or against the United States," and thus is not within the purview of the EAJA. See *Lauritzen v. Lehman*, 736 F.2d 550, 556, n.7 (9th Cir. 1984) (noting that EAJA awards are inappropriate in Bivens actions.) Plaintiff is not entitled to costs or fees incurred in that action.

The government's position was substantially justified if it had a reasonable basis both in law and in fact, or equivalently, if its position was justified to a degree that could satisfy a reasonable person. *Pierce v. Underwood*, 487 U.S. 552, 565, 108 S.Ct. 2541, 2549, 2550, 101 L.Ed.2d 490, 504-505 (1988). The government bears the burden of proving that its position was substantially justified. *Gavette v. Office of Personnel Management*, 808 F.2d 1456, 1467 (Fed. Cir. 1986).

In plaintiff's action against the District Director in his official capacity, plaintiff sought and received an order of the court directing the defendant to issue him a Customs broker's permit for the District of Los Angeles. The government did not appeal this ruling. In reaching its decision, the Court noted that the Customs Service's own interpretation of the regulation governing the permit indicated that in plaintiff's situation "issuance of a permit will be pro forma." T.D. 86-161; *Nakamura v. Heinrich*, Slip Op. 92-13, at 8 (1992); 19 C.F.R. § 111.19.

Since the position taken by the District Director in denying plaintiff's permit was inconsistent with the Customs Service's own published interpretation of governing regulations, the Court cannot conclude that the position of the United States was substantially justified. Accordingly, plaintiff is entitled to fees and other expenses incurred in the action against the District Director in his official capacity.

Plaintiff has requested reimbursement for 114 hours of attorney's time, billed at an hourly rate of \$185; 17.5 hours of a law clerk's time billed at an hourly rate of \$50; and other expenses totalling \$468.82.

As required by § 2412(d)(1)(B), plaintiff has submitted an itemized statement detailing the time expended on the case. However, the statement does not adequately distinguish between time expended on the compensable claim against the District Director in his official capacity and that expended on the non-compensable claim against the individual. The government argues that one half of the time submitted should be disallowed. The plaintiff replies,

the time spent on that portion certainly does not account for one-half of the time spent on this action. That cause of action was only secondary to obtaining the permit and the only extra time expended was to respond to the motion to dismiss. The time expended for responding to that motion to dismiss occurred on October 21, 22, 23 1991 and consumed some fourteen (14) hours.

Plaintiff's Reply Brief, at 9.

Plaintiff's response fails to account for the fact that this issue was pleaded from the outset. *Complaint For Declaratory And Injunctive Relief And Money Damages*, at 5-6. Mindful that an application for attor-

ney's fees should not become an occasion to incur many more such fees, the Court determines without requiring further submissions that the hours submitted by plaintiff shall be reduced by 28 for time expended on the suit against the District Director in his individual capacity.

Plaintiff is also not entitled to reimbursement for fees and expenses incurred prior to preparing for the civil action. The EAJA provides for reimbursement for fees and expenses incurred in the civil or adversary adjudication. *Traveler Trading Co. v. United States*, 13 CIT 380, 385, 713 F. Supp. 409, 413 (1989). "Adversary adjudication" as defined by the Administrative Procedure Act specifically excludes "adjudication *** for the purpose of granting or renewing a license." 5 U.S.C. § 504(b)(1)(C) (1992). "License" includes permits under the Administrative Procedure Act. 5 U.S.C. § 551(8) (1992). If the administrative action below was an adjudication at all, it was for the purpose of granting or renewing a license. *Accord, Bullwinkel v. U.S. Department of Transportation*, 787 F.2d 254, 256 (7th Cir. 1986). The time on which the award is based is accordingly reduced by an additional 5.75 hours.

Subtracting 28 hours for the action against the individual and 5.75 hours for the administrative work from the 114 hours plaintiff requests compensation for leaves a total of 80.25 hours of attorney time compensable under the EAJA.

The EAJA directs that "reasonable attorney's fees" shall be based upon prevailing market rates. § 2412(d)(1)(C)(2)(A). Notwithstanding that directive, attorney fees shall not be awarded in excess of \$75 per hour unless the court determines that an increase in the cost of living or a special factor, such as the limited availability of qualified attorneys for the proceedings involved, justifies a higher fee. *Id.*

In support of an award of \$185 per hour for attorney's time, plaintiff's counsel submits his declaration that this action required specialized knowledge of the Customs broker statute and associated regulations, and that similar skills were not available at the statutory rate of \$75 per hour in the Los Angeles district. The declaration states that Customs law firm's rates ranged from \$150 to \$275 per hour at the time of this litigation, and that to the declarant's knowledge, there are approximately only 15 attorneys in the Los Angeles District concentrating in Customs related work. *Declaration of John N. Politis*.

The Supreme Court has held that the special factor of "the limited availability of qualified attorneys for the proceedings involved" refers to attorneys having some distinctive knowledge or specialized skill necessary for the litigation, such as an identifiable practice specialty like patent law. *Pierce v. Underwood*, 487 U.S. at 572, 108 S.Ct. at 2554, 101 L. Ed. 2d at 5,09. This Court finds that Customs law is a specialized practice area, circumscribed and distinct from general and administrative law, as manifest by the existence of this Court of limited subject matter jurisdiction.

Plaintiff's only evidence of the limited availability of Customs lawyers in the Los Angeles district consists of plaintiff's counsel's declaration.

While the government argues that more is required, it has not produced any evidence to the contrary. The Court takes judicial notice of the relatively small Customs bar that practices before this Court, much of which is based in New York, and accepts plaintiff's counsel's declaration at face value.

Moreover, the Court finds that the requested amount of \$185 per hour is reasonable. Section 2412 permits the Court in any event to make an adjustment for the increase in the cost of living since the statute was enacted. It has been held that to withhold an inflation adjustment without reason would undermine the purpose of the EAJA to remove the financial disincentive to challenge wrongful government action. *Payne v. Sullivan*, 977 F.2d 900, 903 (4th Cir. 1992) (citations omitted).

The Court takes judicial notice that the consumer price index CPI-U made available by the Department of Labor Bureau of Labor Statistics was 87.0 in January 1981, and 141.9 in December 1992. Appropriately adjusted, the \$75 statutory fee is today \$122.33. The 50 percent premium of the requested rate over the inflation-adjusted statutory rate reasonably reflects the limited number of attorneys practicing within the specialized area of law involved.

The \$50 per hour rate for the law clerk is more problematic, because the EAJA makes no explicit provision for law clerk "fees." This Court has held that expenses for law clerks may be compensated in an amount commensurate with the law-firm rate of pay to the law clerk. *Bonanza Trucking Corp. v. United States*, 11 CIT 436, 444-445, 664 F. Supp. 1453, 1460 (1987). Unfortunately, plaintiff has not provided the Court with that information. Compensation for this expense must therefore be denied.

As noted above, plaintiff is not entitled to an award for those expenses incurred prior to beginning the civil action. Since no attorney hours are described as court-related until July 23, 1991, the Court finds that \$8.24 expended July, 16, 1991 to be non-compensable. The Court further disallows all charges for Federal Express and messenger services, since no explanation is made of why United States mail would not suffice for these deliveries. These expenditures total \$177.00. Subtracting \$8.24 for expenses incurred during the administrative proceedings and \$177.00 for courier services from the \$468.82 in expenses plaintiff requests leaves \$283.58 in expenses compensable under the EAJA.

In Sum, the Court determines that plaintiff is entitled to compensation for fees and expenses under the EAJA as follows:

Attorney fees (80.25 hours × \$185/hour)	\$14,846.25
Expenses	283.58
Total	15,129.83

Accordingly, the Court grants plaintiff's application for fees and expenses in the amount of \$15,129.83, and denies plaintiff's application for fees and expenses in excess of that amount.

ORDER

Upon consideration of plaintiff's application for fees and expenses, defendant's response thereto, and other papers filed in relation to plaintiff's application, it is hereby

ORDERED, ADJUDGED AND DECREED that plaintiff's application is granted in part and denied in part as specified in the accompanying opinion, and it is further

ORDERED, ADJUDGED AND DECREED that defendant shall pay to plaintiff the sum of \$15,129.83 within thirty days of the date of this order.

(Slip Op. 93-22)

JUNIOR GALLERY, LTD., PLAINTIFF v. UNITED STATES, DEFENDANT

Consolidated Court No. 84-02-00271

(Dated February 17, 1993)

ORDER

MUSGRAVE, Judge: After careful consideration of proposed orders, affidavits and memorandum in support of an award for attorneys fees brought by the law firm Grunfeld, Desiderio, Lebowitz and Silverman, and the law firm, Mandel and Grunfeld, the Court finds that this action is a private dispute for attorneys fees that is not properly within the purview of the jurisdiction of this Court. Therefore, it is hereby

ORDERED that the proposed order to show cause will not issue, and it is further

ORDERED that the proposed order for an award of attorneys fees shall not issue from this Court, and it is further

ORDERED that this Court will not retain jurisdiction over the subject matter and parties in the within proceedings.

NOTE: Pursuant to the Court's Procedures for Publication of Opinions and Order's, the court's unpublished order entered on February 11, 1993 is being published by the Clerk's Office as Slip Op. 93-23 on February 17, 1993.

(Slip Op. 93-23)

CHRYSLER CORP., PLAINTIFF *v.* UNITED STATES, DEFENDANT

Consolidated Court No. 88-03-00249

(Dated February 11, 1993)

ORDER

GOLDBERG, Judge: Upon reading plaintiff's motion for rehearing under court rule 59, including facts not previously made known to the Court; upon consideration of defendant's response and other papers and proceedings submitted herein; and upon due deliberation, the Court finds plaintiff has established grounds for relief. It is, therefore, hereby ORDERED that:

Plaintiff's motion for rehearing be, and hereby is, granted;

Slip Opinion 92-220 be set aside and vacated;

Consolidated Court No. 88-03-00249 be returned to the Court's docket; and it is further ORDERED that

The request for trial attached to this motion be accepted for filing.

ABSTRACTED CLASSIFICATION DECISIONS

DECISION NO. DATE JUDGE	PLAINTIFF	COURT NO.	ASSESSED	HELD	BASIS	PORT OF ENTRY AND MERCHANDISE
C93/16 2/12/93 Goldberg, J.	Merck, Sharp & Dohme Int'l	88-07-00871-S	437.49 5%	437.76 Free of duty	Agreed statement of facts	JFK Micro-organism cultures
C93/17 2/22/93 DiCarlo, J.	Mattel, Inc.	87-08-00846	737.40, 737.49 737.95 9.66% 8.39%	912.20 Free of duty	Mattel, Inc. v. United States 936 F.2d 1116	New York Various toys not over five cents per unit

Index

Customs Bulletin and Decisions
Vol. 27, No. 10, March 10, 1993

U.S. Customs Service

Customs Service Decisions

	C.S.D. No.	Page
Airline meals (frozen); ultimate purchaser defined	93-3	12
Cartman; employment of contractors in cartage operations ..	93-5	26
Crystal stemwear; hand-cut blanks; country of origin marking	93-2	6
Decals (decorative); applied to porcelain	93-1	1
Troll dolls; copyright infringement	93-4	16

General Notice

	Page
Watches, country of origin marking requirements	31

U.S. Court of International Trade

Slip Opinions

	Slip Op. No.	Page
Chrysler Corp. v. United States	93-23	42
Junior Gallery v. United States	93-22	41
Nakamura v. Heinrich	93-21	37

Abstracted Decisions

	Decision No.	Page
Classification	C93/16-C93/17	43



